Nova Scotia

Report of the Auditor General

March 31, 1983

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AUDITOR GENERAL
NOVA SCOTIA

The House of Assembly

I have the honour to submit herewith the Annual Report required under Section 8 of the Auditor General Act, for the fiscal year ended March 31, 1983.

Respectfully submitted

A. W. SARTY
Auditor General

Halifax, Nova Scotia
October 31, 1983

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GENERAL

Overview

This is the 19th Annual Report that I have had the privilege of submitting since my appointment as Auditor General in 1965. However, by the time this report is tabled, I will have taken early retirement from the Public Service.

The intervening years have witnessed many significant changes in the size and diversity of government and its expenditures. New departments have been created, new programs introduced, and existing departments and programs expanded to the point where the combined overall departmental expenditures on capital and current account, of approximately $2.6 billion in 1983, represent almost a nineteen-fold increase over the corresponding figures of 1965.

A significant part of this increase has resulted from the high inflation rates that prevailed for many years. However, inflation aside, the higher level of government expenditure can also be attributed to rapid expansion in areas of historic government responsibility, together with an expanding involvement by government in other activities, which traditionally had been the exclusive domain of the private sector. Because government has assumed new and enlarged roles, greater responsibility is placed upon those who administer public funds to ensure that expenditures are reasonably estimated, disbursed with due regard for economy and efficiency, accounted for in an accurate and proper manner, and the results disclosed in a forthright and understandable way.

Having observed the accountability process in government for over 18 years, I can attest that some meaningful and worthwhile developments have taken place. The presence of better qualified accounting and financial personnel is clearly evident. This applies not only in the Department of Finance where the central accounting and financial records are maintained, but throughout all departments of government. Acknowledging that there is always room for improvement, the systems in place for the recording and control of financial transactions generally are appropriate.

It is important that the established systems be followed. In this regard, I continue to have concerns that the system for the preparation of the annual budget (Estimates) of the Province may not be used as originally intended. A new budgeting system was introduced in 1979, and in my Annual Report for 1982, I reported at considerable length on

it. The conclusion was that the new system was by and large meeting the objectives that had been set out. As well, it was providing a good deal of useful information and represented a significant improvement over the previous budgeting system.

Despite this rather favourable conclusion, I was obliged to advance a word of caution. I expressed concern then and I do so again, on the basis of certain observations this year. The new budgeting system that involved considerable cost and a large investment in time, may be undermined by reverting to old practices of making ad-hoc and across-the-board type revisions, without appropriate recognition being given to funding levels, service needs, and essential priorities.

Coupled with the need for sound accounting systems to record transactions, is the need for appropriate methods to report the year's financial results and its current financial position. For many years, the Province of Nova Scotia has been criticized, by myself and others, for having financial statements that were difficult to understand, and in large measure did not conform to the practices followed by most of the other Provinces. I dealt with this subject at some length in my 1982 Report.

In the 1983 Public Accounts, some meaningful improvements have been made in presenting the Statement of Financial Position (formerly entitled the Statement of Assets and Liabilities), and the accompanying notes. I commend the Minister of Finance and his staff for their initiative and accomplishments in this regard. However, the quest for more informative financial data on the operation of government must continue. This topic is further discussed on page 39.

Another topic frequently dealt with in my Annual Reports is that of the large unfunded liabilities in the Public Service Superannuation Fund and the Teachers' Pension Fund. An article on page 43 of this report again deals with this topic. While nothing of consequence has been added to that which has already been said, I feel it is prudent to reiterate the pertinent observations and recommendations for future reference.

The continuation of deficit financing by Canadian governments (and others) is raising increased apprehension. As of March 31, 1983, the Province of Nova Scotia concluded six consecutive years where current expenditures exceeded revenues, which along with expenditures on capital assets, have contributed to an increase of $1.4 billion in the net direct del

It is clear that a determined effort must be made to hold increases in expenditures to a minimum, so that this rise in net direct debt is curbed, and eventually reduced. The effect of deficit financing is to burden future generations with the cost of running government today. Furthermore, as deficit financing becomes entrenched, the resulting increases in interest and debt retirement requirements compound themselves, and tend to substantially limit governments' financial flexibility.

If meaningful progress is to be made in the reduction of annual operating deficits and the overall debt load, there must be every determination, by government and taxpayer alike, to curtail expectations that are not essential, nor affordable.

* * * * * *

Auditor General Act

The mandate for my Office is contained in the Auditor General Act which was passed in 1973. Prior to that time, legislation relating to the Auditor General was contained in the Provincial Finance Act. With the proclamation of the new Act, Nova Scotia was one of the few provinces to have a separate statute. Some of its provisions were forerunners of similar ones incorporated in new legislation of other provinces.

In retrospect, I feel that our Auditor General Act has generally proven to be suitable legislation, and throughout the years has met the purpose intended.

However, legislative auditing has undergone many changes since the 1973 Act became law. Some of the more significant ones have resulted from events which have taken place outside our provincial jurisdiction. In 1973, the Government of Canada appointed an Independent Review Committee to inquire into the responsibilities, relationships with government departments and agencies, and reporting procedures of the Office of the Auditor General of Canada.

The resulting report dated March 1975, contained 47 recommendations. One with significant impact recommended that the Federal Auditor General report upon, *". . . cases where he has observed that . . . value-for-money has not been obtained for any expenditure".* Most of the recommendations which required legislative authority were embodied in the new Auditor General Act of Canada which came into force August 1, 1977.

The new Federal Act has had an impact elsewhere. It provided the impetus for changes in audit legislation in British Columbia, Alberta, Ontario and Prince Edward Island. In each of these jurisdictions, new legislation was passed with a mandate and audit scope similar to that of the Auditor General of Canada.

In my judgement, our present Act provides for a scope of audit activities which is, by and large, in accordance with that contained in the newer legislation elsewhere. This includes the right to go beyond the traditional financial statement audit. I believe that the present Act permits the latitude and scope necessary to fulfill the Auditor General's obligation to the Legislature and taxpayers of this Province. I would, however, like to recommend certain amendments to the Act regarding the right to audit grants made to non-government organizations, and some administrative changes.

Recently the term *"comprehensive auditing"* has come into prominence. Comprehensive auditing is designed to review and report on the management of financial, human, and physical resources, so as to provide the greatest possible degree of accountability in the expenditure of public funds. It includes assessing the adequacy of management systems and controls to ensure that due regard has been given to economy, efficiency, and effectiveness. It is directed to reporting whether funds spent have provided value-for-money.

In support of this much broader sphere of audit activity, the Canadian Comprehensive Auditing Foundation has been established. Membership has been drawn from the public and private audit sectors, as well as individuals who have an interest in this subject.

In the 1980's, it appears that the comprehensive audit approach will be applied with increasing frequency, especially in the public sector. The challenge this will present to the auditing profession is twofold. Firstly, suitable methodology and competent professionals to perform these audits will have to be developed; and secondly, an acceptance and appreciation by the auditee of the objectives and benefits of this new approach will have to be promoted.

Considering the changes that had occurred in legislative auditing, I felt that certain amendments should be made to the Auditor General Act of Nova Scotia.

In 1980, I presented a number of recommendations for amendments to the Act. I had hoped that these would be reviewed and presented to the Legislature, in either 1981 or 1982.

Unfortunately, no action has been taken on the proposed amendments, nor has the matter to my knowledge ever come under discussion by the Public Accounts Committee.

In this my final report as Auditor General of Nova Scotia, it is incumbent on me to bring to the attention of the members of the House, the need for amendments to the Auditor General Act. There are 14 changes that I have recommended, and of these, nine could be considered of a housekeeping or administrative type. The remaining five recommendations relate to the independence of the office, and the type of work undertaken by it. In all cases, the suggested recommendations are similar to provisions in other legislative audit Acts that have been developed and passed since the Nova Scotia Act was proclaimed.

In addition, all of the recommended changes are in concert with the recommendations of the Canadian Comprehensive Auditing Foundation Research Study *"Improving Accountability — Canadian Public Accounts Committees and Legislative Auditors"*, published in 1981.

In my Annual Report for March 31, 1980, I described at length two significant recommendations for amendments to the Act. I repeat my comments made at that time.

> *The first has to do with auditing to determine the economy and efficiency with which resources — human, monetary and physical, are utilized. Based upon certain past applications and interpretations of the existing legislation, it appears the Auditor General now has the right to conduct audits of this nature. However, it may be a right that is implied rather than specifically defined. The recommended amendment would therefore remove any doubts that may exist about the right and responsibility of the Auditor General to conduct this type of audit.*

> *Another suggested amendment of significance would permit the Auditor General to examine the records of recipients of discretionary grants to ensure that the money was spent for the intended purpose. Such audits would not be mandatory, rather they would be carried out at the discretion of the Auditor General. In most instances the department paying the grant does have some audit or follow-up procedure using either its own forces, or by engaging the services of outside auditors.*

> *Unlike the audits conducted by the Auditor General, departmental follow-up procedures do not constitute an audit on behalf of the Legislature. Since discretionary grants paid by the Province are of sizeable proportion, it would seem reasonable that provisions be made for an independent audit on behalf of the Legislature by the Auditor General . It is noted that a number of other Canadian Provinces now make provision for the performance of this type of audit by their Legislative Auditor.*

I believe it is important to the best functioning of the Office of the Auditor General that these amendments by implemented. I urge that action be taken on this matter.

I have one other recommendation to make in addition to those made in 1980. Presently, before the Auditor General can obtain the services of outside professional consulting assistance, be it legal, accounting, or otherwise, he is obliged to obtain approval of the Governor in Council. In order that the independence of the office be strengthened, amending legislation should be introduced which would give the Auditor General the right to obtain such consultative help, as in his judgement may be required, without having to seek authority to do so, except for the needed approval of the cost through the regular budgetary process.

I strongly urge that these proposed amendments, and any others which may be necessary, be given serious consideration with a view to strengthening the mandate and independence of the Auditor General.

* * * * * *

Scope of Audit

The requirements for presentation of the Annual Report of the Auditor General to the House of Assembly are contained in Chapter 2, Statutes of Nova Scotia 1973, the Auditor General Act, Section 8. The scope of my audit responsibilities is set out in Section 7 of the Act. For reference purposes these sections are reproduced as Appendix I in this report.

My responsibility is to audit, to the extent that I consider necessary, the accounts of the Province of Nova Scotia and its crown corporations and agencies. In the cases where other auditors have been appointed, namely certain crown corporations and agencies, I generally confine my examination to a review of financial statements and audit reports. Nevertheless, I do conduct additional examinations and investigations of the operations of these crown corporations and agencies as I deem necessary.

During the year, an extensive review of travel expenses was undertaken. This audit covered the expenses of Members of the Legislature, Ministers, Deputy Ministers and ministerial assistants.

The computer audit capability of my office was expanded this year to the point where there are now two senior staff members devoting full time to this area.

Audits were also carried out on claims under various Federal-Provincial cost-sharing agreements.

My examination for the fiscal year ended March 31, 1983, included a review of the accounting systems, including internal controls, together with such tests of the accounting records and supporting evidence as I considered necessary in each case, and was carried out in accordance with generally accepted auditing standards.

As audits are completed, reports are directed to the appropriate officials of the departments concerned. The reports draw attention to irregularities and system weaknesses which have been found, and to other pertinent matters. Frequently, suggestions and recommendations for remedial action are advanced.

Audit Opinion

In accordance with Section 7 of the Auditor General Act, I have examined in such manner, and to the extent I considered necessary, all accounts of public money received or expended by or on behalf of the Province, and all accounts of money received or expended by the Province in trust for, or on account of any government or person, or for any special purpose.

Except for matters referred to elsewhere in this Report, I am of the opinion that:

a. accounts have been faithfully and properly kept;

b. all public money has been fully accounted for, and the rules and procedures applied are sufficient to secure an effective check on the assessment, collection, and proper allocation of the capital and revenue receipts;

c. money has been expended for the purposes for which it was appropriated by the Legislature, and the expenditures have been made as authorized; and

d. essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public property.

Office of Auditor General

The authorized staff complement of the office is 34, the same as last year. I feel that this is an appropriate staffing level, which should be maintained. As vacancies occur, they should not be allowed to remain unfilled. To do so would seriously reduce the capability of the office to carry out quality audit work not only in normal matters, but also in special areas.

For example, I see a requirement for a renewed audit thrust in crown agencies. The accounts of many of these entities are examined annually by public accounting firms, although the Auditor General has the statutory right to conduct any additional audit work which he feels should be done. This would apply mainly in areas other than financial statement audits, such as operational, management, and value-for-money audits.

In my view, it is important to conduct and report upon audit work in such a way that others can relate to what has been done, and understand the purpose for which the audit has been undertaken. In a government environment, it is important that the House of Assembly be able to conclude with a high degree of confidence, that the government has spent the funds authorized by the Legislature in such a way that value has been received, and that funds have been spent for the purposes intended.

For the foregoing reasons, and in view of the growing acceptance of comprehensive and value-for-money auditing, with accompanying demands for quantity and quality of trained audit staff, I caution against attempts ever being made to unduly limit the resources available to the Auditor General.

The expenses of running the office for the fiscal year ended March 31, 1983 were within the amounts authorized by the Legislature. The following tabulation shows a cost breakdown.

Salaries	$1,048,613
Other Costs	106,690
Total Expenses	$1,155,303
Recoveries	$ 135,850

I am pleased to say that the overall level of competency of my staff is as high, or higher, than at any time since I took office. As I conclude my term as the Auditor General for Nova Scotia, I wish to express my gratitude for the dedication and performance of those who have served as members of my staff during that time. I would also like to convey my appreciation to personnel throughout government for their assistance and cooperation over the years.

* * * * * *

STATUTORY AUDIT OBSERVATIONS

Cash and Other Losses

One of the requirements of the Auditor General Act is that I report to the House of Assembly all instances where:

— *there has been a deficiency or loss through fraud, default or mistake of any person.*

Accordingly, I report as follows:

Department of Agriculture

This Department sustained a theft of equipment which cost $550. No recovery has been made, nor charges laid.

Department of Attorney General

This Department experienced five minor cash losses totalling $120, and one theft of equipment valued at $100. These instances occurred at four locations throughout the Province.

Department of Consumer Affairs

This Department suffered losses from two thefts. Equipment costing $230 was stolen. No recovery has been made, nor charges laid.

A field office employee misappropriated funds totalling $9,150. The amount of $2,945 was recovered from the employee, and the Department has initiated procedures to recover the balance of $6,205 from a bonding company. The employee was charged and convicted.

Department of Culture, Recreation and Fitness

A break-in occurred at the Springhill Miners' Museum, resulting in the theft of funds and materials valued at $840 and some damage to premises and equipment. No recovery has been made, nor charges laid.

Department of Education

Thefts resulted in the loss of three small pieces of equipment. No recoveries or arrests have been made.

The Department also sustained minor damage from three break-ins at vocational schools. One arrest was made and conviction followed.

Department of Finance

An employee of this Department was charged and convicted of fraud involving amounts totalling $1,990. Full recovery has been made.

Department of Tourism

A break-in at Liscombe Lodge resulted in the theft of material and equipment valued at $660, and some damage to the premises. No recovery has been made, nor charges laid.

In my last report, I advised that Keltic Lodge had sustained a loss of $6,700, for which an employee was charged, and the matter was before the courts. A verdict of not guilty was subsequently returned, and recovery is being sought from a bonding company.

Department of Transportation

This Department had 31 instances of loss or theft of materials or equipment throughout the Province. The losses totalled $12,210, including one theft of cash of $60. Recovery was made of materials valued at $300, and cash of $60.

Victoria General Hospital

A typewriter valued at $2,000 was stolen from a department of the Hospital. Recovery has not been made, nor charges laid.

Nova Scotia Liquor Commission

Since my March 31, 1973 Annual Report, I have not been reporting stock shortages and breakage. With the introduction of self-service outlets in 1973, such shortages and breakage were considered to be expected, and a partial offset against the cost savings resulting from the self-service style of operation. This subject is now being reported upon for two reasons:

— an unusually large increase in store and customer breakage in the past year; and

— large shortages experienced by the Yarmouth Liquor Store during the previous two years.

Store and Customer Breakage

During the year ended March 31, 1983, there was a significant increase in breakage by staff and customers throughout the Province. Although sales increased by 17%, store breakage increased by 35% to $116,712, and customer breakage increased by 45% to $46,127. Such breakage is a direct loss to the Commission and should be investigated promptly, to remedy the cause and minimize future losses.

Yarmouth Liquor Store

For the fiscal years ended March 31, 1981 and March 31, 1982, this store sustained shortages at rates far in excess of the provincial average. During the March 31, 1981 fiscal year the store shortage rate was double the provincial average, and during the March 31, 1982 fiscal year, the store shortage rate was more than triple the provincial average. Following investigation by law enforcement officials in July 1982, the store shortage rate for the year ended March 31, 1983 decreased to near the provincial average.

The significant decrease in store shortages following police investigation emphasizes the need for promptness in initiating such action when large shortages are identified. I am concerned with the failure of the Commission to initiate an investigation promptly after the March 31, 1981 year end. Such an investigation might have reduced the March 31, 1982 shortages.

There were other instances where store shortage rates were above the provincial averages, but Yarmouth is the only location where, to the best of our knowledge, an investigation was carried out.

Denials of Opinion

Each year I am required to report any instance where, in my judgement, it is not possible to express an unqualified opinion that:

— all public money has been fully accounted for and the rules and procedures applied are sufficient to secure an effective check on the assessment, collection and proper allocation of the capital and revenue receipts; and

— essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public property.

In order to express an opinion, it is necessary to review and evaluate the financial and accounting controls present in the various departments. Should it be determined that certain controls are inadequate, these inadequacies must be considered in rendering an opinion.

The following paragraphs describe those instances where it was not possible to express an opinion that the existing records, controls and systems were adequate.

Department of Attorney General

General Administration

Certain procedures relating to the hiring of casual employees were considered to be inadequate for proper administrative control. The procedures in question were:

— approval for hiring casual employees consisted of verbal authorizations only;

— salary rates for these positions were determined on the basis of informal department policy;

— since documentation authorizing such hirings was often non-existent, it was difficult for the payroll division of the Department to substantiate the existence of the persons hired; and

— due to the absence of adequate time reporting and approval routines, it was not possible to verify that employees were paid for the proper number of hours worked.

Because of these deficiencies, I was not able to express an unqualified opinion on the accuracy of salaries paid to casual employees. However, I have been advised that corrective measures are being implemented.

R.C.M.P. Contract

The Provincial Policing Contract sets forth the terms by which the Royal Canadian Mounted Police provide services to the Province. It is not possible to render an unqualified opinion on payments made to the Receiver General of Canada for this service because:

— the current Policing Contract does not include any provision permitting an audit, by or on behalf of the Province, of expenditures made by the Federal Government relating to services rendered to the Province; and

— invoices submitted by the R.C.M.P. are in such a condensed form that it is not possible to conduct detailed managerial and statistical analyses.

I have been advised that efforts are being made to resolve these problems.

Superintendent of Insurance

Due to the inadequate segregation of duties over the handling of cash, and the inadequate level of authorization in the accounts receivable area, it is not possible to express an unqualified opinion on these two areas. Recommendations have been made to correct the deficiencies.

Provincial Magistrates

Over the years I have expressed concern about accounting control problems in the offices of many Magistrates. During the year, audits were performed on two Magistrates' offices in the province. Although significant improvements have been made, it was still not possible to issue unqualified reports for Magistrates in Kentville and New Glasgow, due to inadequate segregation of duties regarding the handling of cash receipts.

Registry of Joint Stock Companies

The accounting system presently in effect is inadequate in two areas:

— in the cash receipts area there is a poor division of duties and a lack of control over cash; and

— in the securities division, the certificates of registration are not prenumbered, thus making it impossible to determine if all certificates have been accounted for.

Due to these deficiencies, it is not possible to verify that the Province has received all of the revenues to which it is entitled. We understand that corrective measures have been initiated by the Registry.

Victoria General Hospital

On completion of our audit of the Victoria General Hospital, a qualified audit report was issued for the year ended March 31, 1983. We were unable to satisfy ourselves that the laboratory revenue was fairly stated, because there was an absence of numerical and physical controls over the revenue forms.

It is our understanding that steps will be taken to correct the situation by establishing and maintaining strict numerical control over the forms.

Department of Transportation

Miller Lake Mechanical Branch

In carrying out an audit of the inventory system at this location, we determined that a significant control weakness exists. This results from the high concentration of responsibilities in the position of Chief Supervisor of Mechanical Stock. One of the features of a good system of internal control is a proper segregation of duties, so that no one individual has complete control over a particular function. The present authority delegated to the position of Chief Supervisor does not provide the needed segregation. I have recommended that certain responsibilities be assigned to other positions.

* * * * * *

OTHER AUDIT OBSERVATIONS

Additional Appropriations

In this article I would like to comment on certain matters relating to the additional appropriations granted during the 1982/83 fiscal year. In my opinion, there have been significant departures from accepted budgeting practices. Accordingly, I will refer to certain comments I made in my 1982 Annual Report on the Province's budgeting process.

During the 1982-83 fiscal year, an additional $84.2 million was provided by additional appropriations, to cover current expenditures over and above the amounts approved by the Legislature. Also, an additional $5.9 million was provided to supplement the original capital spending estimates. The $84.2 million was the third largest on record, exceeded only by 1981-82 ($166.2 million), and 1978-79 ($86.1 million).

The largest additional appropriation was $20.7 million added to Debt Charges, to cover higher than budgeted expenditures, occasioned by a change in financial statement presentation to reflect foreign funded debt payable at a Canadian dollar equivalency. I concur with this change. Previously, the exchange differential on this foreign debt had been disregarded.

The original 1982-83 Estimates were passed by the Legislature in the spring of 1982 as Chapter 1, Statutes of Nova Scotia, 1982. These Estimates were made up of 113 votes under current expenditure totalling $2.4 billion.

On August 18, 1982, Order in Council 82-1078 suspended the right of departments or agencies to commit previously voted funds totalling $32.8 million, relating to the 1982-83 fiscal year. These reductions were made to 79 votes. One amount was subsequently adjusted, to bring the net reduction in authorized funding to $31.5 million.

Despite a recognized need to cut expenditures wherever possible, I have concerns about the approach taken. Over the past few years, after intensive efforts in terms of man hours and cost, major changes were introduced in the budgeting process. These changes augured well for a much improved management planning and budgeting system. In my report last year, I commented on the new budgeting process within the Province. I concluded that the management planning and budgeting system generally met the objectives set, and provided a good deal of useful information. However, I cautioned that expenditure reductions

should be undertaken in a systematic manner only, so as not to undermine the progress made in implementing the improved system.

I cite the following concerns which I have about the approach that was taken to amend the 1982-83 Estimates.

- Reductions were often made across-the-board, rather than on specific items.

- I question the appropriateness of certain reductions, because of additional appropriations subsequently approved that reinstated them.

- Some of the requests for additional appropriations specifically referred to the reductions as a reason contributing to the need for additional funds.

An unrealistic exercise in expenditure reduction related to the Department of Education. The Department's original budget submission for School Grants was substantially decreased in the preparation of the Estimates. A further reduction was made in August 1982, yet both of these reductions were reinstated by additional appropriations.

If adjustments are required to the Estimates which have received legislative approval, they must be done in a realistic manner that recognizes funding levels, service needs, and essential priorities. Otherwise the foundation of the management planning and budgeting system, that has been introduced over the last several years, will be seriously undermined. The substantial amounts of time and cost invested in the new system could prove to be largely negated.

In the past, I have been somewhat critical of the long delays between the fiscal year-end and the approval of the last additional appropriation. Approvals for the 1983 fiscal year continued to be made until 26 weeks after the year end.

The following schedule lists the additional appropriations approved by Order in Council after March 31, 1983.

Additional Appropriations

Department	Approval Date	Amount
Attorney General		
Registry of Joint Stock Companies	June 7, 1983	$ 31,400
Public Officials	June 7, 1983	30,100
Education		
Senior Management Program	October 4, 1983	44,000
Environment	August 9, 1983	29,763
Finance		
Debt Charges	September 29, 1983	20,694,729
Fisheries	August 9, 1983	601,114
Health		
Health Services and Insurance Commission	September 6, 1983	974,946
Labour and Manpower		
General Administration	September 6, 1983	13,488
Mines and Energy		
Assistance — Coal Industry	August 30, 1983	75,862
Public Service		
Council of Maritime Premiers	April 19, 1983	529,976
Human Rights Commission	July 19, 1983	48,071
Ministers' Salaries and Expenses	July 19, 1983	7,200
Motor Carrier Act — Administration	June 7, 1983	15,100
Office of the Speaker	July 19, 1983	14,600
Protocol Office	July 19, 1983	33,500
Purchasing Agency	July 19, 1983	136
Tidal Power Corporation	June 14, 1983	9,973
Tourism		
Hotel Operations	September 6, 1983	80,564
		$23,234,522

I am required under Section 8(1) (f) of the Auditor General Act to call attention in my Annual Report to every case in which: *"a special warrant, made pursuant to the provisions of the Provincial Finance Act, authorized a payment of money".*

No special warrants were issued during the 1982-83 fiscal year.

. . .

Computer Related Audits

There is presently a substantial utilization of computerized equipment by most agencies and departments within government. At the very least, most are involved in a peripheral way with computerized systems. This development is being paralleled by increased attention from an audit standpoint by our office.

This article contains four sections:

Computer Resources Audit — an update

Department of Finance — an update

Environmental Reviews — current audits

Security and Control — importance

COMPUTER RESOURCES AUDIT

In 1982, I reported on certain aspects of the overall management of the computer resources within government. We had concentrated on the planning and decision-making process for the development of computer resources, and dealt specifically with such topics as equipment duplication, compatability, and capacity monitoring.

My general conclusion was that there was no overall strategy or plan for the development or use of government computer facilities.

In summary, my recommendations were:

— there must be centralized control over the acquisition, development, and use of computer facilities and technology;

— a senior level planning function must be established to ensure that policies are formulated and followed;

— an operations group should be responsible for implementing the approved strategy and planning; and

— the user groups must become more aware of their roles, in such areas as planning, and their ongoing responsibilities for systems and data management.

Since my 1982 report, several significant actions have been taken.

- In August 1983, a senior level planning committee was established by Management Board. All computer project proposals within government must be approved by this committee. As well, Management Board approval must be obtained for the acquisition or enhancement of computer facilities.

- The Department of Government Services has authorized a capacity planning study of the government's central data processing facility.

- Management Board approved the development of a policy covering the acquisition, development, and use of data processing and office automation facilities within government.

I am pleased to note that the concerns expressed in our last year's report are receiving the attention of management in government.

DEPARTMENT OF FINANCE

In the 1981/82 year, we conducted a review of the computer facility at the Department of Finance. Major problems which required attention were:

— the inadequacy of user documentation;

— a serious control weakness concerning segregation of duties;

— the lack of adequate security procedures;

— the need for a back-up facility; and

— the need for a thorough risk analysis.

In late 1982, the accounting firm of Touche Ross & Co. were engaged by the Department of Finance to conduct a study of their systems and facility. We understand that a report has been prepared, but we have not as yet been provided with a copy of it.

To date, we have not done a follow up audit of our findings, pending an opportunity to review the Touche Ross & Co. report.

ENVIRONMENTAL REVIEWS

Environmental reviews consist of detailed audits which determine the adequacy of:

— system and program documentation, as well as user and operator instructions;

— development controls that ensure proper planning, authorizations, testing, and accurate conversion from manual systems;

— organizational controls to ensure that the segregation of functions and duties is appropriate;

— processing controls which ensure that data is processed completely and accurately; and

— precautions taken to ensure that data and equipment is physically safeguarded.

Environmental reviews were conducted during the year for five computer installations:

Camp Hill Hospital (CHH)

Department of Consumer Affairs (DCA)

Department of Social Services (DSS)

Medical Services Insurance (MSI)

Victoria General Hospital (VGH)

Our findings are summarized below.

- Three of the five installations did not have up-to-date documentation, nor were standards established for the preparation and maintenance of documentation. (CHH, DCA, VGH)

- Two of the installations have systems maintenance and development work performed by "outside contractors" who have access to "live" systems and data. (CHH, VGH)

- One organization was not using a formal steering committee for decision making regarding the acquisition and use of computer technology. (CHH)

- One organization does not have a proper segregation of duties between the user, the operations group, and the development personnel. (DSS)

- All installations generally lacked a comprehensive security program. This topic is discussed at length in the next section of this report.

It is our understanding, on the basis of discussions with management in each of the organizations, that remedial action is planned for many of the weaknesses.

SECURITY AND CONTROL

In the course of the five audits referred to above, we found little or no evidence of any formal detailed security and control procedures, or such things as contingency plans and insurance coverage to cover potential physical threats to the installations. In addition, insufficient attention has been given to such control areas as offsite storage of data, and back up and recovery procedures, to be resorted to in the case of major processing interruptions at the primary installation.

As previously stated, the lack of a comprehensive security program is one of the most prevalent weaknesses throughout many of the computer installations. These security programs are of major importance because:

— the use of computer technology and data processing facilities continues to increase at a rapid rate;

— as more data is processed and stored on computers, security and confidentiality is of greater concern; and

— current technology allows more people to access the systems and data.

A comprehensive security control program should address, as a minimum, the following:

— the identification of all threats and/or risks to the computer installation, ranked according to their likelihood of occurance, and possible consequences;

— the development of security controls to contend with the risks and threats that are identified;

— the development of contingency plans to be resorted to for the reconstruction of historical data, and processing of current data in the event of disruption at the primary installation; and

— where necessary, the provision of adequate insurance to cover extraordinary expenses resulting from damages and losses relating to systems and data.

Security programs cannot be allowed to develop on an ad-hoc basis, but must be the result of a well defined analysis, assessment, and implementation process. The users must become fully aware of the risks their computer systems and data are exposed to, and the limitations of security systems that may be in place.

Security over systems and data is of utmost importance, and must be treated as a priority by those at senior management and operating levels.

* * * * * *

Departmental Annual Reports

It is my opinion that appropriate departmental annual reports are a major part of the accountability process in government. As such, they should be available on a timely basis to members of the Legislature and the public. I have previously reported my concerns regarding deficiencies in this reporting process, in both my 1977 and 1978 Annual Reports.

Legislation relating to departmental annual reports ranges all the way from none, to a requirement for tabling in the Legislature with a filing deadline.

There is however, a directive from Management Board requiring departments to prepare and file an annual report. It is Chapter 4 of Management Guide 100, dated July 1, 1982, and it sets out guidelines relating to purposes, preparation and general framework of such reports.

Annual reports should be a summary of the department's or agency's operation for a fiscal period. The report's purposes are:

— to inform members of the Legislature on activities;

— to inform taxpayers of the stewardship of the funds that were appropriated; and

— to provide a historical record.

Annual reports should contain, as a minimum, the following:

— a narrative describing the department's purposes, and giving highlights of the activities during the fiscal year as they relate to those purposes;

— financial data for the fiscal year; and

— statistical information in appropriate format.

A review of annual reports for the year ended March 31, 1982 (which normally would be available in late winter - early spring 1983) showed that five departments/agencies did not have March 31, 1982 annual reports available by October 31, 1983. These were — Attorney General, Education, Environment, Purchasing, and Culture, Recreation and Fitness.

Documentation for Contract Expenditures

Culture, Recreation and Fitness

In 1981, the Department funded, through a firm named Targe Productions Limited, the *"Meet The Navy Show"*. Targe Productions Limited mounted the show, and recovered expenses from the Department.

From our audit of the payments to Targe Productions Limited for the 1981 *"Meet The Navy Show"* we concluded that there was:

— a lack of proper documentation to support these payments;

— no post-payment review by the Department to ensure the monies were spent for the intended purposes;

— inadequate administrative control of these payments; and

— a situation that placed the Province in a minor role regarding control and authority over this cultural show.

In 1982, the Department paid Targe Productions Limited $210,000 to mount the *"1982 Meet The Navy Show"*. Again, we found no documentation in the Department to support the payments. The Department was not in possession of a formal, signed contract for the show. As well, we examined correspondence by department officials in which concern was expressed about the lack of information and documentation to support the payments.

We acknowledge the Department was used as a *"vehicle"* to administer the project and as such, could not subject this project to its regular departmental controls. However, we must conclude that in our opinion, there was inadequate overall control over these cultural show payments.

Tourism

From our review of expenditures by the Department, we found payments totalling $50,000 that were inadequately supported. These payments were made to the Scottish Societies Association of Nova Scotia for the 1983 International Gathering of the Clans. Neither an agreement nor a grant application was obtained by the Department of

Tourism for this project. In addition, the Association was not required to provide a financial statement showing how the funds were used.

This lack of formal supporting documentation makes it difficult to assess payments made by the Department.

Department of Education

Insurance on School Property

In the report of the Commission on Public Education Finance (referred to as the Walker Commission Report) issued in March 1981 it was reported with reference to fire insurance on schools and contents, that:

(i) there is a wide variation in fire insurance coverage as arranged by individual boards, and

(ii) many boards have inadequate fire insurance coverage; and

(iii) there are substantial savings to be realized by a self-insurance plan, therefore we make

RECOMMENDATION 60

that the Department of Education assume the financial responsibility for all necessary fire insurance on schools and contents, and that self-insurance be given serious consideration.

The Government decided not to implement the above recommendations. Under existing legislation, it is the responsibility of the individual school boards to provide adequate insurance on schools and contents. In the case of fire loss, any shortfall in the replacement cost of a school and its contents, due to the inadequacy of insurance coverage, would appear ultimately to be the responsibility of the Province.

The Government, through the Department of Government Services, is currently involved in the planning and construction of school premises. Upon completion, these premises will be turned over to either the municipality or school board concerned. During the course of construction, there is adequate insurance for fire loss through the Department of Government Services.

However, subsequent to the transfer of these assets to either a municipality or a school board, there is no procedure in effect within the Department of Education to ensure that there is adequate fire insurance on the building and its contents. In addition, there is no monitoring of information by the Department relating to insurance coverage on existing school properties which, in the event of a fire loss, would have to be replaced by the Provincial Government.

I consider the findings and recommendations of the Commission on Public Education Finance to be quite significant, particularly with respect to the comment that *"many boards have inadequate fire insurance coverage"*. The fact that there is no department responsible for ensuring that there is adequate, ongoing, insurance coverage, is serious, and an unreasonable risk.

Appropriate steps should be taken to:

— establish guidelines indicating the type and extent of insurance coverage that is required;

— initiate procedures to monitor and ensure that insurance coverage is in conformity with the guidelines; and

— study the possible benefits of a self-insurance plan.

Financial Statements
Province of Nova Scotia

I commend the Minister of Finance for the significant improvement in the presentation of the financial statements of the Province for the fiscal year ended March 31, 1983.

In the past, I have expressed concern about certain accounting and disclosure practices relating to the Public Accounts which, in my opinion, have seriously diminished the taxpayers' ability to understand and meaningfully interpret much of the data presented. Last year, I dealt at length with the practices used in accounting for capital expenditures, and the treatment of Surplus and other reserve accounts. In addition, I commented on the form and content of the Statement of Assets and Liabilities, and in particular, the unnecessary information contained in

this statement which detracted from the emphasis on Net Debt. As well, the statements directed an unwarranted amount of attention to the Surplus and reserve accounts which, in my opinion, conveyed information that could be misleading, and should have been eliminated.

This year, the Statement of Financial Position, (formerly the Statement of Assets and Liabilities), has been prepared in a manner that has eliminated the various Surplus and reserve accounts.

Also, the unnecessary detail relating to accumulated capital expenditures has been eliminated. As a result, the statement is more understandable, and more in concert with the disclosure practices of the other provinces and the Government of Canada.

The Statement of Consolidated Fund Transactions, and the Statement of Current Revenue and Expenditure, have also been simplified by the elimination of the various Surplus and reserve account transactions, and accordingly present the results of the year's operations more clearly.

The explanatory notes accompanying the financial statements describe in detail the reporting and accounting policies followed by the Province in the preparation of its annual statement of financial stewardship, and provide details for various items appearing in these statements. Again I would like to commend those responsible for preparation of the statements for the substantial improvement in the Notes.

It was satisfying to see that those responsible for the management of the public resources have provided, in this year's financial statements, an accounting of their stewardship that is more understandable than the presentation of previous years. I acknowledge that it is not an easy task to present the complex financial position and results of a government entity in a simplified format. The mode of presentation in the current year's financial statements is a major improvement over prior years. By the removal of unnecessary detail, the significant amounts are more prominently displayed. This should facilitate understanding and usefulness to the reader.

Loan Guarantees

The Province of Nova Scotia is normally required to provide guarantees to lenders for funds advanced to crown corporations and agencies. As well, the Province sometimes provides guarantees to lending institutions for loans to private businesses. These latter cases occur principally under the authority of the Industrial Development Act, and the Industrial Loan Act. By providing these guarantees, the Province is able to assist industry without having to go directly to the money markets to raise the capital.

The guarantees given by the Province are presented in the Public Accounts as Statement 9, *"Statement of Direct Guarantees"*, and are summarized as follows:

Nova Scotia Power Corporation	$1,028,591,000
Sydney Steel Corporation	257,789,000
Nova Scotia Municipal Finance Corporation	167,638,000
Halifax-Dartmouth Bridge Commission	89,319,000
Nova Scotia Resources Limited	54,019,000
Industrial Development and Industrial Loan Acts	36,039,000
Others	2,167,000
	$1,635,562,000

These guarantees, although not shown as a direct liability on the Statement of Financial Position of the Province, should not be disregarded when interpreting the Province's financial statements. They are referred to by way of footnote, and are detailed in Statement 9 in the Public Accounts.

Included among these guarantees are some for which there is a strong likelihood that the Province will have to honour its obligation, and provide the funds to meet the financial commitments of the borrowers.

One item in the above tabulation which raises special concern relates to the guarantees for Sydney Steel Corporation totalling almost $258 million. A good deal has been said and written, including articles in my Annual Reports, regarding the uncertain financial prospects for Sydney Steel Corporation. One cannot ignore the fact that the Corporation may not be able to meet its debt retirement commitments in the future, and therefore a portion of the direct guarantees may have to be funded by the Province from the Consolidated Fund.

Among the guarantees of $36 million under the Industrial Development and Industrial Loan Acts, are several which have been made on behalf of borrowers who are currently in a precarious financial position. In effect, they are continuing in business largely because their bank loans have been guaranteed by the Province. Although it is difficult at this point to project the exact amount that would be required to honour those guarantees, a conservative estimate is in the $2-$5 million range.

I draw attention to these matters because the current accounting and disclosure practices of the Province make no allowance in the financial statements for possible losses on loan guarantees. It is my contention that when a given situation has deteriorated to the point when the Province will likely have to honour its guarantee commitment, it should be recognized by proper financial disclosure. Accordingly, I strongly recommend that steps be taken to ensure that reasonable allowances are made to reflect expected losses.

To ignore the realities of the situation is to present a Statement of Financial Position which does not portray the true liabilities of the Province.

Performance of Accounting Function

In my 1982 Annual Report, I stated that excessive delays had been experienced in the completion of four large audits, due to the inadequate performance of the accounting function by the accounting and management staff of the audit entities. As part of my mandate under the Auditor General Act, I am required to report whether records have been faithfully kept. I considered it necessary to report these four instances because of the unreasonable time delays in the completion of their accounting records. Due to these conditions, my office was required to spend an additional 600 hours finalizing these audits, at a direct cost of over $20,000.

The four audits concerned were:

Department of Mines & Energy — Novaco Limited

Nova Scotia Housing Commission

Technical University of Nova Scotia

Victoria General Hospital

I am pleased to report that for the March 31, 1983 fiscal year end, no delays were experienced in these audits. There was a commendable improvement in the performance of the accounting function in each of these organizations. Improvements made in both organization and staffing should enable each to continue this satisfactory performance in future years.

I consider it important, however, to repeat three items from the article in last year's report, because they continue to be relevant and must be borne in mind by management of all government agencies, corporations and departments.

First, it must be appreciated that the Office of the Auditor General is required to meet an audit mandate that in recent years has increased substantially in both size and complexity. To fulfill this mandate, it is not possible to absorb additional time requirements and unreasonable delays in regular audit assignments.

Second, audits will not be commenced by this office until the accounting data is ready and available for audit. In most cases, the entity must assume the responsibility for the preparation of their own financial statements.

Third, and most significantly, it has to be appreciated that in instances where, through inattention or inadequate performance of the accounting function, it is not possible to complete an audit at the required time, my office may not be able to commit itself to the completion of the audit. I trust that such circumstances will not arise, but I do caution that it has taken place in other jurisdictions in Canada. My office cannot be expected to complete an audit when excessive delays are experienced which should have been anticipated and overcome, had the management of the operation been attentive to its responsibilities.

Provincial Retirement Plans

Over the years I have reported my concerns with respect to the two retirement plans under the management of the Province; namely, the Nova Scotia Teachers' Pension Fund and the Public Service Superannuation Fund.

The concerns were prompted by the results of actuarial valuations of the Funds, which were conducted at five year intervals. These valuations indicate that substantial unfunded liabilities exist in both Funds.

The latest of these valuations reported unfunded liabilities for the Teachers' Pension Fund of $457.9 million at July 31, 1979, and $165.2 million for the Public Service Superannuation Fund at June 30, 1981. These unfunded liabilities have arisen because the contributions paid into the Funds over the years by employees, and the matching amounts by government, have been insufficient to provide for the benefits that have accrued. This is particularly true of the Teachers' Pension Fund where numerous amendments have been made to the benefit package over the years, without corresponding increases in contributions.

It must be recognized that the actuarial valuation of the Funds is a complicated process. Therefore, notwithstanding the application of the best professional judgement and expertise applied by the actuarial consultants, determinations cannot be made with absolute exactness. The process involves mathematically forecasting future performance of the Funds, taking into consideration such factors as anticipated salary progression, inflation estimates, rates of return on funds invested, and probable rates of employee retirement, death, and disability.

It is interesting to note that in 1973 the combined unfunded liabilities of the plans were calculated to total over $104 million. In the most recent valuations, the amount reached $623 million. Thus in a decade, this unfunded liability has risen by over $500 million.

The difficulty in dealing with this problem is that its impact will not be felt until some years into the future. The current Statement of Continuity of Fund for both Funds shows that the cash inflow is still considerably in excess of pensions paid and other outflows. However, if the situation becomes reversed in the future, and it appears that it will, the Funds will, with compounding affect, move towards depletion.

One remedy that will significantly slow or eliminate the growth in the unfunded position is, of course, the infusion of more capital. Two steps are needed. First, an increase in annual contributions by employees and government to ensure that benefits presently being earned are fully provided for. Second, an annual contribution, presumably by the government, of an amount at least equal to interest on the present unfunded balances. These two steps will freeze the unfunded liabilities at their present level. The annual cost of doing the latter alone would be

significant, amounting to approximately $60 million, assuming an interest rate of 10% applied to the unfunded liabilities referred to above.

It is sometimes argued that a government is an entity in perpetuity with sufficient taxing powers to meet its obligations as they arise, and therefore no action need be taken now. However, the consequences of this inaction would be the significant growth of the unfunded liabilities, and the deferment of costs that are accruing today. This will place an added burden upon future contributors to the Funds. It is highly probable that this burden would fall substantially upon the government, therefore, upon future taxpayers.

Failure to make full allowance on a current basis for the estimated future costs of pensions can have the following detrimental effects:

— propensity to increase benefits to a point where ultimate affordability of the plans could be jeopardized;

— a violation of the fundamental principle of providing for costs as they occur; and

— hidden subsidization of those agencies and corporations who participate in the Provincial plans.

Under present economic conditions, there may be practical limitations to freezing the unfunded liabilities. I do, however, submit that unfunded liabilities cannot be allowed to experience uncontrolled growth, with no effort being made to provide for at least partial freezing. It has to be recognized that ultimately something must be done, therefore, a policy should be developed now and appropriate action commenced. Failure to act could jeopardize the ultimate stability of these plans.

Public Accounts Committee

The Public Accounts Committee has been referred to as the "Audit Committee of the Legislature". Its role is to exercise surveillance over the executive and financial administration; scrutinize the legality, propriety, and prudence of government expenditures; assess whether there is accountability and responsibility for the management of financial, human, and physical resources; and make recommendations for improvements in financial administration and accountability.

On several occasions in the past, I have expressed concern that the Public Accounts Committee of Nova Scotia has been largely ineffective. Except for one or two occasions when some attempt was made to change the Committee's mode of operation, there has been little or no change in its overall performance during my tenure as Auditor General.

In my 1979 Annual Report, I made several recommendations which, in my judgement, would have made the Committee a more effective body. Again in 1981, I presented an article drawing attention to a Research Study of the Canadian Comprehensive Auditing Foundation which contained a total of 69 recommendations directed towards the overall accountability process of Canadian governments. On that occasion, I tabulated a number of the Research Report's recommendations. Included as Appendix II to this report, is a complete listing of the recommendations.

As I conclude my tenure as Auditor General, I report with disappointment that the Public Accounts Committee of Nova Scotia has made no effort to incorporate many of the significant policies and practices, not only enunciated in the Research Study, but followed in most of the other provincial jurisdictions in Canada. Some key areas that require attention are:

- there is no formal written statement of the role of this Committee;
- there has been no annual report of the Committee for five years;
- the Committee follows the practice of meeting during the same period that the House is sitting, thereby encountering both scheduling and timing problems that make it difficult to deal in depth with many issues; and
- there is no attempt to organize the meetings by the preparation of an agenda, or to provide appropriate background to complex matters by the use of briefing sessions.

It is therefore appropriate that I reiterate the urgency of initiating long overdue improvements in the operation of the Public Accounts Committee of the Province of Nova Scotia. I hope that Members of the House of Assembly will recognize the need for these improvements in

order to develop a more appropriate role for the Committee in the overall accountability process of government.

An appropriate conclusion to this article might be to quote from the Constitution of the Canadian Council of Public Accounts Committees which was approved July 6, 1982. This Council is a body comprising members of the Public Accounts Committees of all Provinces of Canada, the Northwest Territories, and the Government of Canada. Section 2 of this Constitution reads as follows:

The aims of the Council are:

(a) To facilitate the exchange of information and opinion relating to Public Accounts Committees, and to discuss matters of mutual concern;

(b) To improve the quality and performance of Public Accounts Committees in Canada to ensure that taxpayers are getting value for money;

(c) To work with the Auditors General so as to improve the effectiveness of both the Auditors and the Public Accounts Committees;

(d) To work with individuals and organizations knowledgeable about matters of concern to Public Accounts Committees;

(e) To educate the elected Members, the media and the general public as to the purposes and activities of Public Accounts Committees.

I have to submit that in Nova Scotia there is not an effective working relationship between the Auditor General and the Public Accounts Committee as set forth under item (c) above. This is simply because the Committee lacks a clearly defined statement of roles, is poorly organized and administered, and makes no effort to prepare meaningful reports on its findings and recommendations to the House of Assembly.

* * * * * *

Reserve for Doubtful Accounts

The relevant legislation concerning the accounting for uncollectable accounts of the Province is contained in the Provincial Finance Act, Section 23.

The normal procedure is that when the collectability of an account due the Province first comes into doubt, a reserve for doubtful accounts is created, and the expense is then charged to an appropriate account. The authority to make the charge is the same as that required to pay an invoice. The reserve for doubtful accounts is then deducted from the gross amount due the Province to arrive at a *"net collectable"* total for financial statement presentation.

Later, when it is finally determined that an account is uncollectable, a request is made to the Governor in Council through the Minister of Finance to have the account written-off. The write-off is accomplished by charging the amount to the reserve for doubtful accounts which was previously set up.

In the March 31, 1983 Public Accounts, Statement 19, *"Continuity of Reserves for Doubtful Accounts."* presents the details of changes during the year to the various reserves. These reserves total $111.7 million at year end. There were provisions totalling $13.8 million this year, charged as follows:

Surplus Account	$13,809,659
Expenditures, against a vote	* 48,223
Revenues	* (62,491)
Special Reserve Fund	(10,000)
	$13,785,391

*These amounts include 20 charges and credits ranging from $71 to $546,872.

I acknowledge that adequate review and approval procedures are in place for the establishment of Reserves for Doubtful Accounts for many of the departments, and for the advances made from the various capital loan programs of the Province. In these cases there is a significant involvement by senior personnel in the agency or department.

My concern, however, is that there are two deficiencies in the process. One is a disclosure matter, in that some reserve provisions are offset against departmental revenues and Surplus account rather than being shown as a separate expense item. Accepted accounting disclosure practice is to reflect all provisions as a distinct expense item in the financial statements.

Secondly, although many departments and all the loan funds have the annual provision reviewed and/or approved by the Deputy Minister or equivalent, this practice is not a requirement. I believe it should be, because of its significance.

Accordingly, I recommend that:

— all provisions for doubtful accounts be charged to an expense account, disclosed separately, and not netted against revenues or charged to Surplus; and

— a formal policy be initiated that requires the Deputy Minister or equivalent to approve all provisions for doubtful accounts.

Travel Expenses

During the March 31, 1983 fiscal year, my office undertook a review of expenses of the Members of the House of Assembly, Members of the Executive Council, Deputy Ministers, and ministerial assistants.

An overall conclusion was that there were serious inadequacies in the House of Assembly Act, the Executive Council Act, and the accompanying regulations, relating to expense allowances for Members of the House and Executive Council. These inadequacies relating to voids, contradictions, overlaps, and other deficiencies have made it extremely difficult in many cases, to be certain of the intent of the legislation. The possibilities for misinterpretation and error also posed problems for the claimants, and those responsible for the approval of expense claims.

The criteria against which the expenses of Deputy Ministers and ministerial assistants were audited was the Travel Policy Statement as issued by Management Board. We encountered no difficulties in the application of this policy statement.

We have reported, to both the Speaker of the House of Assembly and the Chairman of Management Board, our conclusions and recommendations for revision to the relevant Acts and regulations. We understand these are being reviewed by the Internal Economy Board of the Legislature, for the purpose of developing appropriate revisions to both legislation and regulations.

I would urge that every effort be made to implement required changes so that the entitlement to expense reimbursement is clarified for both the claimant and the disbursing authority.

* * * * * *

APPENDICES

The Auditor General Act

APPENDIX I

Section 7

The Auditor General shall examine in such manner and to the extent he considers necessary such of the accounts of public money received or expended by or on behalf of the Province, and such of the accounts of money received or expended by the Province in trust for or on account of any government or person or for any special purposes or otherwise, including, unless the Governor in Council otherwise directs, any accounts of public or other money received or expended by any agency of government appointed to manage any department, service, property or business of the Province, and shall ascertain whether in his opinion

(a) accounts have been faithfully and properly kept;

(b) all public money has been fully accounted for, and the rules and procedures applied are sufficient to secure an effective check on the assessment, collection, and proper allocation of the capital and revenue receipts;

(c) money has been expended for the purposes for which it was appropriated by the Legislature, and the expenditures have been made as authorized; and

(d) essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public property.

Section 8

(1) The Auditor General shall report annually to the House of Assembly the results of his examination and call attention to every case in which he has observed that

(a) any officer or employee had wilfully or negligently omitted to collect or receive any public money belonging to the Province; or

(b) any public money was not duly accounted for and paid into the Consolidated Fund; or

(c) any appropriation was exceeded or was applied to a purpose or in a manner not authorized by the Legislature; or

(d) an expenditure was not authorized or was not properly vouched, or certified; or

(e) there has been a deficiency or loss through fraud, default or mistake of any person; or

(f) a special warrant, made pursuant to the provisions of the Provincial Finance Act, authorized the payment of money;

and to any other case that the Auditor General considers should be brought to the notice of the House of Assembly.

(2) The report of the Auditor General shall be laid before the House of Assembly on a day following the day upon which the Public Accounts have been laid before the House of Assembly.

(3) Whenever a case of the type described in clause (a), (b) or (e) of subsection (1) comes to the attention of the Auditor General, he shall forthwith report the circumstances of the case to the Minister.

Section 16

(1) Where the Governor in Council pursuant to this Act or any other Act has directed that the accounts of public money received or expended by any agency of government shall be examined by a chartered accountant or accountants other than the Auditor General, the chartered accountant or accountants shall

(a) supply to the Auditor General annually a copy of all financial statements and reports prepared by them relating to the agency of government; and

(b) make available to the Auditor General, upon request, and upon reasonable notice, all working papers, schedules and other documentation relating to the audit or audits of the agency accounts.

(2) Notwithstanding that a chartered accountant or accountants other than the Auditor General have been directed to examine the accounts of an agency of government, the Auditor General may conduct such additional examination and investigation of the records and operations of the agency of government as he deems necessary.

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APPENDIX II

Improving Accountability — Canadian Public Accounts Committees and Legislative Auditors

(a 1981 Research Study, by the
Canadian Comprehensive Auditing Foundation)

Recommendations

1. Each Public Accounts Committee prepare and adopt a formal, written statement that describes the committee's role and responsibilities.

2. The written statement of role and responsibilities comprise a general statement of purpose and a list of issues that the committee is to examine, assess, report on to the legislature, and follow up with the administration, including:

   — the reliability and appropriateness of information in the Public Accounts to provide a full and fair accounting of operations and financial transactions;

   — the collection of, and proper accounting for, all taxes and other revenues due;

   — the maintenance of expenditures within the limits and for the purposes authorized by the legislature;

   — the adequacy of safeguards to protect assets from loss, waste and misappropriation;

   — the regard for economy in the acquisition of goods and services;

   — the regard for efficiency in operations; and

   — the effectiveness of programs in achieving their stated objectives.

3. Provision be made for the automatic and permanent referral to Public Accounts Committees of both the Public Accounts and the Auditor's report as soon as they become available.

4. Public Accounts Committees recognize their capacity to investigate any matter that is within their terms of reference.

5. Ministers be called as witnesses before Public Accounts Committees only when they have been personally involved in decisions under examination.

6. Chairmen of Public Accounts Committees explain to witnesses their legal position in regard to future actions that may arise from testimony.

7. Provision be made to allow Public Accounts Committees to meet whether the House is in session, recessed or prorogued.

8. Public Accounts Committees be limited to between 5 and 11 members.

9. Public Accounts Committees be appointed for the full term of the legislature, and not session by session.

10. Chairmen of Public Accounts Committees be members of the opposition.

11. Chairmen play a leading role in all aspects of committee work and participate in the questioning of witnesses and in other committee deliberations.

12. Chairmen of Public Accounts Committees serve for the life of a legislature or until replaced.

13. Committees elect vice-chairmen from among the government members.

14. Larger Public Accounts Committees appoint a steering committee to plan the work and to bring forward drafts of committee reports.

15. Ministers not be appointed as members of Public Accounts Committees.

16. One clerk, who gives first priority to these duties, be assigned to serve the Public Accounts Committee.

17. Research assistance be provided to Public Accounts Committees.

18. Consideration be given to compensating members of Public Accounts Committees for their attendance at meetings held when the legislature is not in session.

19. Consideration be given to appropriate financial recognition for the extra work and responsibilities assumed by the chairmen of Public Accounts Committees.

20. All Public Accounts Committee meetings for hearing testimony be open to the press and public, except when evidence of a particularly sensitive nature is to be given.

21. Meetings for planning future work, briefings, reviewing progress and drafting reports be held *in camera*.

22. Public Accounts Committees plan, in general terms, the work to be undertaken at the beginning of each session, and prepare formal agendas for public distribution at least one week ahead of each meeting.

23. Committees arrange for suitable briefing material to be available to members prior to hearings, and if necessary set time aside to review it.

24. A verbatim transcript of Public Accounts Committee hearings be prepared and published promptly.

25. Committees keep brief, formal minutes of proceedings.

26. Suitable meeting space, with appropriate facilities, be available to Public Accounts Committees.

27. Public Accounts Committees schedule sufficient, regular meetings to discharge their responsibilities.

28. Provision be made for legislators who are not members of Public Accounts Committees to attend meetings and participate in the questioning of witnesses, but not to vote.

29. Procedures for questioning witnesses be adopted that permit productive lines of questioning to be taken to their conclusion and allow all members an opportunity to participate.

30. Public Accounts Committees concentrate their attention on significant issues of management and financial administration rather than on isolated, unimportant, individual transactions.

31. Public Accounts Committees prepare substantive reports at least annually containing a summary of findings, a statement of conclusions, and recommendations for action to be taken by the government.

32. Wherever possible, Public Accounts Committee reports be arrived at through a consensus of all members of the committee.

33. Legislatures set aside time to debate the reports of Public Accounts Committees at least annually.

34. Public Accounts Committees adopt an effective procedure for following up their recommendations with the administration.

35. Auditors be required by legislation to express an opinion on the financial statements and the accounting policies underlying them.

36. Legislation specifically give Auditors responsibility for reporting on the adequacy of the information provided to the legislature in the Estimates and Public Accounts.

37. The legislation establishing the mandate of Auditors specifically include an examination and reporting on value-for-money issues, including regard for economy and efficiency in operations and procedures for evaluating and reporting on the effectiveness of programs in meeting their objectives.

38. Legislation provide that Auditors accept specific assignments from their legislatures, provided these do not take precedence over other duties assigned by statute.

39. Legislation provide that Auditors accept direction by the government to perform audits only if in their opinion such work would not interfere unduly with the performance of their regular duties.

40. Auditors not be responsible for any aspect of the government's financial administration including the pre-audit of expenditures.

41. Legislation make specific provision for the confidentiality of the Auditor's working papers.

42. Auditors be given legislative authority to obtain any information or documents they require from Crown organizations or their auditors, and to conduct any further examinations that they deem necessary.

43. Given a sufficient improvement in the timeliness of completing government accounts, Auditors work toward the goal of completing their annual reports within six months after the fiscal year end, and have their opinions and comments on the financial statements incorporated in the Public Accounts.

44. Auditors' annual reports be released to members of the legislature and to the public as soon as they are available, regardless of whether they have been tabled in the legislature.

45. The Auditor's annual report be presented to the Speaker, who shall table it in the legislature at the earliest opportunity.

46. Wherever possible and appropriate audit reports incorporate responses by the audited organizations to the Auditors' comments and recommendations.

47. Legislation provide that Auditors need not report matters that, in their opinion, are inconsequential.

48. Auditors follow up the recommendations made in their reports and ensure that the responses are made known to the Public Accounts Committees.

49. Statutory provision be made for Auditors to make special reports to the legislature on matters of urgency and importance.

50. Legislation clearly establish Auditors as officers of the legislature.

51. An objective, rigorous search process be used in filling a vacancy in the Auditor's position.

52. Mechanisms be devised to ensure that the individual appointed to the position of Auditor is acceptable to both government and opposition members of the legislature.

53. Statutory provision be made for filling a temporary vacancy in the office of Auditor, and such provision include safeguards to prevent interim appointments for unduly extended periods of time.

54. Auditors be appointed for a fixed, non-renewable term on no more than ten years.

55. The Auditor's salary be tied by statute to that of top public servants.

56. Provision be made for a review of the Auditor's budget by a representative group of legislators before it is presented to the House for approval.

57. Legislative provision be made for a special report to the legislature by Auditors in whose opinion the resources provided for the operation of their offices are insufficient.

58. Auditors have sufficient independence from central administrative controls to ensure that they can organize, staff and manage their offices and engage outside expertise as they see fit, within their budgets and within the provisions of legislation designed to protect the rights of public servants.

59. Legislative provision be made for an audit of the audit office, conducted by a qualified auditor who is not an employee of the Crown, with the results made available to the legislature.

60. Separate legislation be enacted dealing with the Auditor and the audit office.

61. A committee of senior representatives of all recognized parties in the House, including at least one minister, be given responsibility for approving the Auditor's budget for presentation to the House, for appointing and considering the reports of the Auditor's auditor, and for such other duties regarding the operation of the audit office as may be deemed appropriate.

62. Public Accounts Committees set aside time to familiarize themselves with the nature of the work and the responsibilities of the audit office, within the context of government financial administration.

63. Auditors and/or members of the audit staff attend all hearings of Public Accounts Committees to act and be used as a source of expert advice to the committees.

64. Public Accounts Committees make use of Auditors as advisers while preparing their agendas and reports and in briefings prior to their hearings.

65. Auditors discuss the general subject of the format and style of their reports with Public Accounts Committees.

66. Auditors prepare their reports with the needs of Public Accounts Committees in mind.

67. Auditors consider issuing separate reports on special studies or comprehensive audits as they are completed.

68. Public Accounts Committees be given the power to instruct Auditors, by resolution, to conduct specific examinations, provided that such assignments do not unduly interfere with the regular duties of the audit offices.

69. Public Accounts Committees discuss with Auditors the most appropriate manner of using the services of the audit offices to follow up committee recommendations.

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